IT 00-0032-GIL 03/24/2000 ADDITION MODIFICATIONS – OTHER RULINGS

General Information Letter: Expenses related to U.S. government obligation interest income are not required to be added back in computing base income.

March 24, 2000

Dear:

This is in response to your email inquiry dated March 23, 2000, in which you request a letter ruling. The nature of your request and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. *See* 86 Ill. Adm. Code 1200.120(b) and (c), which may be found on the Department's web site at www.revenue.state.il.us.

In your inquiry you have stated the following:

Facts:

An S Corporation has interest from U.S. Treasury obligations, which is excludable from Illinois income. Additionally, the S Corporation has deductions, which are directly attributable to this income. Therefore, for federal tax purposes, the corporation reports U.S. Treasury income and takes a deduction for these expenses related to the production of this income. For federal purposes, the corporation is essentially reporting a net U.S. Treasury interest amount.

Question:

For Illinois purposes, is the corporation allowed to exclude all of its U.S. Treasury income <u>and</u> not add back the expenses attributable to U.S. Treasury obligations?

**<u>Response</u>**

Pursuant to Section 203(b)(1) of the Illinois Income Tax Act (the "IITA"; 35 ILCS 5/101 *et seq*.), a Subchapter S corporation begins the computation of its net income subject to Illinois income tax with its taxable income as determined for federal income tax purposes. Section 203(b)(2) of the IITA then requires the Subchapter S corporation to make certain addition and subtraction modifications to its federal taxable income. Section 203(h) of the IITA provides:

> Except as expressly provided by this Section there shall be no modifications or limitations on the amounts of income, gain, loss or deduction taken into account in determining gross income, adjusted gross income or taxable income for federal income tax purposes for the taxable year, or in the amount of such items entering into the computation of base income and net income under this Act for such taxable year.

Section 203(b)(2)(J) of the IITA provides for the subtraction of any amount of income that is exempt from taxation by the state as a result of the statutes or Constitution of the United States, which includes interest on obligations that federal statutes exempt from state taxation. There is no provision in Section 203(b)(2) of the IITA that can be interpreted to require a Subchapter S corporation to add back to its federal taxable income any deduction related to interest exempted from state taxation by federal statute. Accordingly, no add-back of expenses attributable to exempt interest is required.

As stated above, this is a general information letter which does not constitute a statement of policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department. If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b). If you have any further questions, you may contact me at (217) 782-7055.

Sincerely,

Paul S. Caselton
Deputy Chief Counsel -- Income Tax